

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Philippines

## Coffee Annual

## Philippine Coffee Situation and Outlook

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### **Report Highlights:**

The Philippines is a relatively small coffee producer with output less than one percent of global production. Philippine coffee production in 2010/11 is expected to decline between 5-6 percent to 25 TMT in green bean equivalent due to some shift from coffee farming to rubber and bananas in Mindanao. The Philippines is a net coffee importer, 2010/11 imports of coffee beans are expected to decline but will still remain at over half of total supply due to limited domestic production. Soluble coffee imports on the other hand, particularly from Indonesia, rose tremendously from 19.3 TMT to over 40.2 TMT last year and are forecast to continue to increase.

**Commodities:**

Coffee, Green

**Production:**

Coffee production in Market Year 2010/11 (July/June) is projected to drop by as much as 5-6 percent due to a continued shift by Mindanao farmers from coffee to higher value commodities. Chopping down of non-productive coffee trees, as well as conversion of coffee farms to non-farm use has also been reported. A reported shortage of labor for coffee harvesting in Zamboanga, due to a shift from farming to mining, has also contributed to the decline in coffee production this year. In 2010/11, the total area planted of all coffee varieties dropped by 6 percent from 131 to 122 thousand hectares due to reported conversion of coffee lands to residential areas.

<b>Coffee: Philippine Production (dried berry basis) January-December</b>			
<b>Region</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Value Million Pesos	P6,205	P5,529	P5,487.90
Volume Metric Tons	97,430	96,433	94,570
Average Farmgate Price Pesos/kg	P63.69	P57.33	P58.03

Source: Bureau of Agricultural Statistics

The Philippines, which lies in the coffee belt can grow four varieties of coffee: Arabica, Excelsa, Liberica and Robusta. In 2010, the total number of bearing trees dropped by 0.67 percent. The number of mature trees of Arabica went up by 0.70 percent while Robusta trees declined. 0.83%. Robusta remained the major variety comprising almost 75 percent of 2010 production.

<b>Coffee: Number of Mature Trees, Philippines January-December</b>		
	<b>2009</b>	<b>2010</b>
Coffee	85,064,363	84,544,625
Arabica	13,908,200	13,999,774
Excelsa	5,959,635	5,897,929
Liberica	951,038	933,034
Robusta	64,018,201	63,488,968
Others	227,289	224,920

Source: Bureau of Agricultural Statistics

In 2010, the average composite farmgate price of coffee (all varieties) was P58.03, up by 1.2 percent from the previous year due in part to the decline in local coffee production. In 2010, Robusta farmgate prices increased by 1.3 percent to P57.16/kg, while Arabica farmgate prices increased by 13 percent to P67.57/kg from 2009 prices.

<b>FARMGATE PRICES OF ROBUSTA DRY BEANS (Pesos/kg)</b>		
	<b>2009</b>	<b>2010</b>
January	67.67	55.48
February	66.28	58.60
March	63.71	58.46
April	61.16	60.08
May	60.88	60.41
June	60.51	42.92
July	53.13	57.04
August	51.58	54.52
September	53.29	55.20
October	49.09	55.47
November	48.30	58.45
December	50.39	60.74
<b>Average</b>	<b>57.16</b>	<b>56.45</b>

Source: Bureau of Agricultural Statistics

<b>FARMGATE PRICES OF ARABICA DRY BEANS (Pesos/kg)</b>		
	<b>2009</b>	<b>2010</b>
January	77.76	86.46
February	77.5	87.4
March	78.4	91.23
April	50.52	95.3
May	52.48	57.12
June	52.88	54.78
July	51.88	53.73
August	52.17	54.12
September	53.15	54.53
October	50.35	65.63
November	62.85	47.61
December	62.7	62.92
<b>Average</b>	<b>60.22</b>	<b>67.57</b>

Source: Bureau of Agricultural Statistics

Note: As of June 6, 2011, US\$1=P43.21

**Consumption:**

The Philippine economy is expected to expand by 4.8-5.8 percent this year, lower than the record 7.3 percent GDP growth achieved last year, due to a slowdown in government spending, the rise in oil prices and a possible drop in remittances from Overseas Filipinos from the Middle East and North African states. However, a significant contributor to the GDP growth is the robust business process outsourcing industry (BPO) that grew by 25 percent in 2010.

Coffee is generally considered to be a household staple even among the lower economic classes. At present, soluble or instant coffee accounts for about 90 percent of all the coffee consumed in the Philippines. Domestic coffee consumption is estimated to increase slightly due to a predicted increase in overall food and beverage consumption as population and income continues to rise. The booming BPO industry which has long and varied operating hours from the normal Philippine workforce is also expected to contribute to the increase in coffee consumption.

**Trade:**

The Philippines is a net coffee importer. Trade data from the Global Trade Atlas shows that imports of coffee beans declined from 30,700 MT in 2009 to 27,000 MT in 2010. Imports are sourced largely from neighboring Asian countries such as Vietnam (54 percent); Indonesia (44 percent) and others. It is likely that not all coffee imports are always accurately captured by the official government data due to the reported robust informal trade between Indonesia and the southern island of Mindanao, where the majority of plantations are located and coffee manufacturers are operating. Imports of soluble coffee and coffee concentrates more than doubled from 19,293 MT in 2009 to 40,200 MT last year. Without significant increases in production and with continued growth in domestic consumption, coffee bean and soluble coffee imports will likely remain high at an estimated 50 percent of total annual domestic requirement.

**Policy:**

Executive Order No. 850 was signed in December 2009, lowering the Common Effective Preferential Tariff Rates for ASEAN (Association of Southeast Asian Nation) member countries to a range of 0-5 percent. The 2010 Most Favored Nation (MFN) tariff rates for coffee have not changed from the previous year. For non-ASEAN countries such as the U.S., the tariff remains at 40 percent.

<b>Tariff Code</b>	<b>Description</b>	<b>MFN</b>	<b>CEPT</b>
<b>09.01</b>	<b>Coffee, whether or not roasted or decaffeinated coffee husks and skins; coffee substitutes containing coffee in any proportion</b>		
	- Coffee, not roasted		
0901.11	-- Not decaffeinated		
0901.11.10	--- Arabica WIB or Robusta OIB		
	A. In-Quota	30	0
	B. Out-of-Quota	40	0
0901.11.90	--- Other		
	A. In-Quota	30	0
	B. Out-of-Quota	40	0
0901.12	-- Decaffeinated		
0901.12.10	--- Arabica WIB or Robusta OIB		
	A. In-Quota	40	0
	B. Out-of-Quota	40	0
0901.12.90	--- Other:		
	A. In-Quota	40	0
	B. Out-of-Quota	40	0
	- Coffee, roasted		
0901.21	-- Not decaffeinated		
0901.21.10	--- Uground		
	A. In-Quota	40	0
	B. Out-of-Quota	40	0
0901.21.20	--- Ground		
	A. In-Quota	40	0
	B. Out-of-Quota	40	0
0901.22	-- Decaffeinated		
0901.22.10	--- Uground		
	A. In-Quota	40	0
	B. Out-of-Quota	40	0
0901.22.20	--- Ground		
	A. In-Quota	40	0
	B. Out-of-Quota	40	0
0901.90.00	- Other		
	A. In-Quota	40	0
	B. Out-of-Quota	40	0

Source: Tariff and Customs Code of the Philippines, 2004 & Executive Order 850

**Marketing:**

According to analysts, specialist coffee shops in the Philippines are expected to continue growing in the coming years. Specialist coffee shops grew in terms of number of outlets, transactions and value sales. With international coffee chains gaining popularity and other specialty coffee shops following suit, more such outlets are likely to appear. The strong growth is mainly attributed to excellent consumer demand, as coffee drinking has become a very popular social activity. Coffee shops have become a status symbol for younger consumers and Filipinos, in general, have started to be more discriminating in their preferences for coffee.

In the Philippines, multinational chains dominate specialist coffee shops and have experienced robust growth since the late 1990s. Popular foreign franchised specialist coffee shops include Starbucks, Seattle's Best, The Coffee Bean & Tea Leaf, Gloria Jean's and UCC Coffee. In addition, local coffee chains have also experienced strong growth over the past several years.

Recognizing the continued growth potential for coffee shops, many Filipino companies and even growers of locally produced coffee beans have opened their own businesses. The support of the local government and agriculture sector to farmers has also helped to rejuvenate the Philippine coffee industry.

### Production, Supply and Demand Data Statistics:

Coffee, Green Philippines	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jul 2009		Market Year Begin: Jul 2010		Market Year Begin: Jul 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	131	131	0	126		124
Area Harvested	114	114	0	110		108
Bearing Trees	89	89	0	86		85
Non-Bearing Trees	15	15	0	15		15
Total Tree Population	104	104	0	101		100
Beginning Stocks	109	109	54	54		145
Arabica Production	35	35	35	35		35
Robusta Production	625	625	625	600		585
Other Production	25	25	25	16		14
Total Production	685	685	685	651		634
Bean Imports	385	385	400	365		365
Roast & Ground Imports	0	0	0	0		0
Soluble Imports	1,000	1,000	1,150	1,300		1,350
Total Imports	1,385	1,385	1,550	1,665		1,715
Total Supply	2,179	2,179	2,289	2,370		2,494
Bean Exports	0	0	0	0		0
Rst-Grnd Exp.	0	0	0	0		0
Soluble Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Rst,Ground Dom. Consum	125	125	125	125		125
Soluble Dom. Cons.	2,000	2,000	2,050	2,100		2,200
Domestic Use	2,125	2,125	2,175	2,225		2,325
Ending Stocks	54	54	114	145		169
Total Distribution	2,179	2,179	2,289	2,370		2,494

1000 HA, MILLION TREES, 1000 60 KG BAGS